

# Investment Office Roadmap

## Organization Systems & Controls

### Quarterly Target Operating Model Status Report

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# Roadmap Objectives

- The 2011-12 Roadmap consists of six strategic priorities:
  - Organization Systems and Controls
- Organization Systems and Controls Objective: Design, develop and implement a robust, integrated operating model that minimizes complexity, improves transparency, and strengthens processes, systems, governance & controls

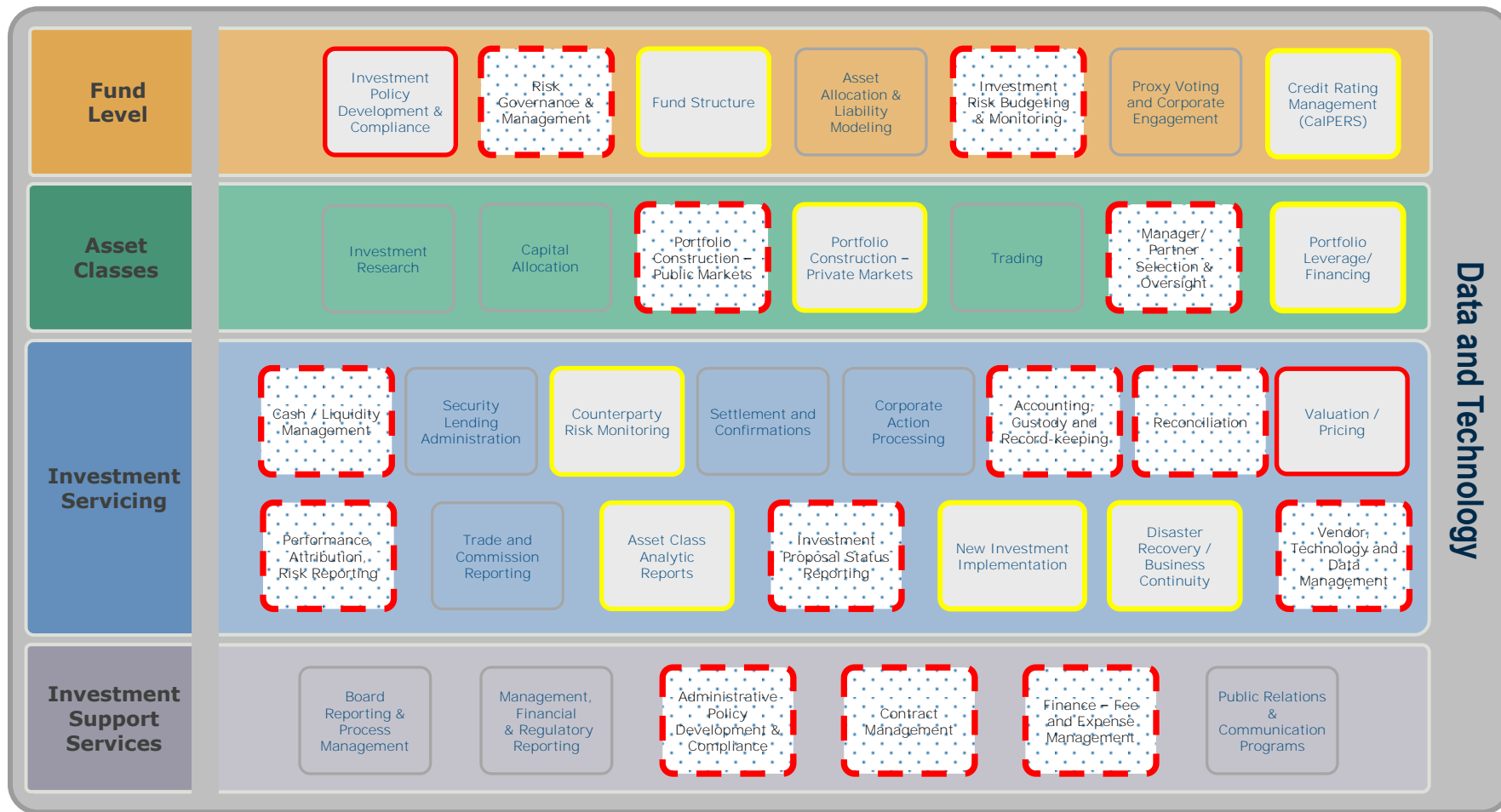


Organization, Systems & Controls Today (FROM)	(TO) Vision
Risk exposure due to inefficient legacy, asset-based “cottage industry” approach geared toward specialized, siloed investment strategies	Efficient, scalable, best-of-breed operating model with clear understanding of controls and risks
Fragmented & incomplete data & infrastructure; impossible to aggregate information for timely investment management & decision making	Integrated data & systems for efficient, timely decision making driving superior investment performance
Unnecessary complexity for the value derived	Appropriate blend of simplicity & complexity
Obscured accountability and unclear roles	Transparent organization structure, roles & processes for clear accountability

# INVO Hot Spots - Key Focus Areas

## Target Operating Model

**Key**  
 Red – High Priority , Near Term Initiatives (2011)  
 Yellow – Medium Priority Initiative  
 Others – Business as Usual or Low Priority  
 Patterned & Dash Border – Active Work in Progress



# Roadmap – Major Initiatives: Sequence and Status

Initiative	Initiative Status	2011				2012				2013			
PM2: “Public Markets Portfolio Management” (formerly IEPC)	R												
Custody, Fund Accounting & Performance	G												
Investment Risk Management	G												
Contract & Vendor Management	G												
Administrative Policies & Monitoring	G												
Manager Selection & Monitoring	A												
Finance / Expense Management	R												
Operating Risk Governance & Management	G												
Fund Structure & Fund Expenses	A												
Private Assets IBOR & Accounting	N/A												
Records Retention & Document Management	N/A												
Investment Policy Development & Monitoring	N/A												
Cash / Liquidity Management	N/A	*	*	*									
Technology Management	N/A	*	*	*									
Pricing / Valuation	N/A	*	*	*	*	*							
Data Services (Governance)	N/A	*	*	*	*	*							
Performance Attribution	N/A	*	*	*	*	*							
Public Records Request Procedures	N/A			*									
CRM - Salesforce Expansion	N/A												

\* incremental and / or targeted work underway  
N/A: Major Initiatives not started

**G** On Target

**A** Needs Attention

**R** Major issues which will impact Initiative timeline

# Significant Status or Sequence Changes Since Last Report:

Operating Committee Reviewed and Recommended the following sequence and expected timelines changes:

## PM<sup>2</sup> Public Markets Portfolio Management

- Added six months to project timeline due to need for further analysis to identify solution; previously proposed vendor solution will not meet needs on expected timeline

## Finance / Expense Management

- After completion of requirements and current process analysis, added six months to timeline to better reflect size of effort

## Private Assets IBOR & Accounting

- Move up priority to align with AIM strategic plan;

## Records Retention & Document Management

- Move up priority because project is a dependency for a more efficient Public Records Act process

## Technology Management

- Move start back by three months due to difficulty of recruiting leadership position

## Pricing / Valuation

- Move start back by nine months; Reduced priority of initiative to enable increased priority for Private Assets IBOR & Accounting project

## Data Services (Governance)

- Move start back by six months; Reduced priority of initiative to enable increased priority for Private Assets IBOR & Accounting project

## Significant Status or Sequence Changes Since Last Report (cont.):

Explanation of Projects in Red Status	
PM <sup>2</sup> Public Markets Portfolio Management	
<ul style="list-style-type: none"><li>Investment Office completed a detailed analysis phase and evaluated a potential vendor solution, however, this assessment identified that vendor system is not ready to meet CalPERS business needs. This determination affects the ability to meet the project timeline.</li><li>The focus now is to evaluate alternative ways to meet the objectives of the project, including the consideration of expanding the use of existing systems already utilized within the Investment Office</li></ul>	
Finance / Expense Management	
<ul style="list-style-type: none"><li>Completed analysis with KPMG to assess issues regarding expense management. Issues are more significant and not easily resolved, including the need to:<ul style="list-style-type: none"><li>Re-engineer expense payment and processes;</li><li>Ensure all expense payments are coded in a way that facilitates financial reports in multiple dimensions;</li><li>Identify and implement a technology solution to effectively track investment expenses</li></ul></li><li>Have not obtained approval to recruit investment officer position to lead financial reporting and reengineering effort.</li></ul>	

# Major Accomplishments Since Last Update:

Target Operating Model Initiatives	
Custody, Fund Accounting & Performance	
✓	Completed Master Custodian Contract
✓	Defined and Implemented T+1 Daily Hard Close Process
✓	Implemented CERBT Recordkeeping
✓	Completed Transition to Master Custodian's New Enhanced Service Model
Administrative Policies & Monitoring	
✓	Finalized INVO Travel Policies and Procedures
✓	Conducted Travel Policy Staff Training (95% of staff completed training)
✓	Implemented Interim Travel Policy Compliance Review Process
✓	Revamped Internal Audit Coordination Process & Roles
Manager Selection & Monitoring	
✓	Further enhanced the Investment Proposal Tracking System (IPTS) by implementing common status definitions and communication templates
✓	Produced September 2011 Investment Proposal Activity Reports using IPTS
Operating Risk Governance & Management	
✓	Completed Rapid Results Project: Operating Event Measurement and Escalation
Investment Policy Development & Monitoring	
✓	Developed and Implemented ISDA Terms and Service Approval Process
Performance Attribution & Analysis	
✓	Completed Rapid Results Project: Consolidate INVO Board Reporting
✓	Completed Rapid Results Project: CIO Reporting
Contract and Vendor Management	
✓	Developed reports to better monitor and manage contract and Letter of Engagement expirations, and plan for renewals

# Key Deliverables Over the Next 6 Months:

Target Operating Model Initiatives	
Public Markets Portfolio Management (PM2)	
<input type="checkbox"/>	Complete Analysis of Equity Order Management System for Portfolio Construction and Solution for Global Equity IBOR
Custody, Fund Accounting & Performance	
<input type="checkbox"/>	Integrate Service Level Agreements into Master Custodian Contract
<input type="checkbox"/>	Implement Governance Model
Investment Risk Management	
<input type="checkbox"/>	Complete Testing and Go Live with New Risk Management System (BarraOne)
Administrative Policies & Monitoring	
<input type="checkbox"/>	Launch Delegated Authority Review and Review of Role of General Pension Consultant
<input type="checkbox"/>	Initiate 3 new Rapid Results Projects (Operational Delegation, Board Agenda Schedule, Standard Contract Terms and Conditions)
Manager Selection & Monitoring	
<input type="checkbox"/>	Charter Rapid Results Team to Develop Manager Monitoring and Selection Standards Across Asset Classes
Finance / Expense Management	
<input type="checkbox"/>	Launch Financial Reporting and Expense Process Reengineering Projects
Operating Risk Governance & Management	
<input type="checkbox"/>	Implement Operating Event Escalation Process
Fund Structure & Fund Expenses	
<input type="checkbox"/>	Develop plan for implementing Group Trust Structure; Segregate assets that cannot be pooled in a group trust.
Pricing / Valuation	
<input type="checkbox"/>	Issue Valuation Management Services RFP for Real Assets Appraisal Program
Technology Management	
<input type="checkbox"/>	Complete review and refresh of INVO Disaster Recovery and Business Continuity Plan